

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT

CORUNNA, MICHIGAN

AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2004

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Lewis & Knopf, CPAs, P.C.

"Serving You with Trust and Integrity"

August 18, 2004

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of
Shiawassee Regional Educational Service District

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Shiawassee Regional Educational Service District, as of and for the year ended June 30, 2004, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Shiawassee Regional Educational Service District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Shiawassee Regional Educational Service District as of June 30, 2004, and the respective changes in financial position, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report under separate cover dated August 18, 2004 on our consideration of the School District's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages II - VIII and 17 - 18 are not required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Shiawassee Regional Educational Service District's basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

LEWIS & KNOPF, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Shiawassee Regional Education Service District, located in Shiawassee County, Michigan, is in its second year of implementation of the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34) with the enclosed financial statements. The Management Discussion and Analysis, a requirement of GASB 34, is intended to be the Shiawassee Regional Education Service District's (SRESA) administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2004.

Generally accepted accounting principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: District Wide Financial Statements and Fund Financial Statements.

Fund Financial Statements:

The School District's fund financial statements provide detailed information about the most significant funds – not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (the Special Education is an example) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (such as bond-funded construction funds used for voter-approved capital projects). The governmental funds of the School District use the following accounting approach:

Governmental funds – All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

District Wide Financial Statements:

The District wide financial statements are full accrual basis statements. They report all of the District's assets and liabilities, both short and long term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Funds solely for the payment of long term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and obligations of the District are reported in the Statement of Net Assets of the District wide financial statements.

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

District Wide Financial Statements: (Continued)

These two statements report the Shiawassee Regional Educational Service District net assets – the difference between assets and liabilities, as reported in the statement of net assets – as one way to measure the School District’s financial health or financial position. Over time, increases or decreases in the School District’s net assets – as reported in the statement of activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District’s operating results. However, the School District’s goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net assets and the statement of activities report the governmental activities for the School District, which encompasses all of the School District’s services, including instruction and support services. Property taxes, unrestricted State aid, and State and federal grants finance most of these activities.

The School District as Trustee – Reporting the School District’s Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District’s fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the School District’s other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

SUMMARY OF NET ASSETS:

The following summarizes the net assets at the fiscal years ended June 30, 2004 and 2003:

NET ASSETS SUMMARY

	<u>2004</u>	<u>2003</u>
<u>ASSETS</u>		
Current Assets	\$13,213,902	\$13,072,737
Non-Current Assets	<u>3,621,607</u>	<u>3,360,055</u>
<u>TOTAL ASSETS</u>	<u>\$16,835,509</u>	<u>\$16,432,792</u>
<u>LIABILITIES</u>		
Current Liabilities	\$2,373,264	\$2,434,580
Long-Term Liabilities	<u>1,195,650</u>	<u>1,125,067</u>
Total Liabilities	\$3,568,914	\$3,559,647
<u>NET ASSETS</u>		
Invested in Capital Assets - Net of Related debt	4,384,648	4,196,505
Unrestricted	<u>8,881,947</u>	<u>8,676,640</u>
Total Net Assets	<u>\$13,266,595</u>	<u>\$12,873,145</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$16,835,509</u>	<u>\$16,432,792</u>

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

RESULTS OF OPERATIONS:

For the fiscal years ended June 30, 2004 and 2003, the District wide results of operations were:

	<u>2004</u>	<u>2003</u>
<u>REVENUES</u>		
<u>General Revenues:</u>		
Property Taxes Levied for General Operations	\$365,709	\$347,872
Property Taxes Levied for Special Education Services	6,020,658	5,729,338
State of Michigan Unrestricted Foundation Aid	4,457,213	4,090,590
Other General Revenues	<u>161,058</u>	<u>123,700</u>
Total General Revenues	\$11,004,638	\$10,291,500
<u>Operating Grants:</u>		
Federal	3,655,134	3,423,685
State of Michigan	1,753,696	2,447,556
Other Operating Grants	<u>727,998</u>	<u>862,998</u>
Total Operating Grants	\$6,136,828	\$6,734,239
<u>Charges for Services:</u>		
Other Charges for Services	<u>1,699,424</u>	<u>1,192,385</u>
Total Revenues	\$18,840,890	\$18,218,124
<u>EXPENSES</u>		
Instruction & Instructional Support	4,048,732	4,007,820
Support Services	14,362,224	12,711,610
Community Services	463	0
Depreciation	<u>36,021</u>	<u>36,021</u>
Total Expenses	<u>\$18,447,440</u>	<u>\$16,755,451</u>
<u>INCREASE IN NET ASSETS</u>	\$393,450	\$1,462,673
<u>BEGINNING NET ASSETS</u>	<u>12,873,145</u>	<u>11,410,472</u>
<u>ENDING NET ASSETS</u>	<u><u>\$13,266,595</u></u>	<u><u>\$12,873,145</u></u>

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

GOVERNMENT- WIDE FINANCIAL ANALYSIS

Analysis of Financial Position:

During the year ended June 30, 2004, the District's Total Net Assets increased by \$393,450 to a total of \$13,266,595. The largest portion of the net assets are the District's investment in capital assets. Net assets (invested in capital assets, net of related debt) increased by \$188,143 during the year due to purchases of new capital assets and principal payments on related debt exceeding depreciation. The districts Unrestricted Net Assets increased by \$205,307 during the year. The restricted Net Assets consist of the Investment in Capital Assets-net of related Debt. The restricted capital projects fund may only be used to fund capital projects. The unrestricted net assets may be used to fund the educational services provided to students.

Analysis of Results of Operations

The district's overall revenues exceeded its expenses for the year by \$393,450. The total revenues increased by \$622,766 or 3% over last years amounts. The major changes were increases in special education taxes and state aid. Expenditures increased by \$1,691,989 or 10% over last year. Major changes were increased transfers to local districts and salary and fringe benefit increases.

FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS – GOVERNMENTAL FUNDS

Analysis of Financial Position

The focus of the District's governmental funds is to provide information on near term inflows, outflows , and balances of spendable resources. Such information is useful in assessing the district's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a governments net resources available for spending at the end of the fiscal year. An analysis of changes for the governmental funds is as follows:

General Fund

The district's general fund is the chief operating fund of the district. Unreserved fund balance for the general fund increased by \$13,539 during the year with the increase coming primarily from a reduction in cash. Revenues for the year decreased by \$147,977 primarily from a decrease in federal revenue. Expenditures increased by \$153,493, primarily from increases in salaries and fringe benefits.

1. State of Michigan Aid (Section 81)

The State of Michigan aid provided under Section 81 of the State Aid Act provides the majority of state aid to the District's General Fund. Funding to the District under Section 81 is provided to comply with the requirements of the State Aid Act and to provide technical assistance to local districts as authorized by the intermediate school board. Funding under Section 81 was \$844,021 for the fiscal year a decrease of \$51,276 from the previous year.

2. Property Taxes Levied For General Operations (General Fund Homestead and Non-Homestead Taxes)

The District levies .2301 mills of property taxes for operations (General Fund) on Homestead and Non-Homestead Properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or 5 percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value.

The District's property tax revenue for the 2003-2004 fiscal year was \$365,709. An increase of \$17,837 from the prior year.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS – GOVERNMENTAL FUNDS (Continued)

Analysis of Financial Position (Continued)

Special Education Fund

Unreserved fund balance for the special education fund increased by \$784,303 during the year with the increase coming primarily from a reduction in cash. Revenues for the year increased by \$998,034 primarily from increases in property taxes and federal revenue. Expenditures and other financing uses increased by \$628,848, primarily from increases in transfers to local districts and salary and fringe benefit increases. The major source of special education revenues is state aid and taxes. An analysis of them is as follows:

1. State of Michigan Aid (Section 51)

The State of Michigan aid provided under Section 51 of the State Aid Act provides the majority of state aid to the District's Special Education Fund. Funding to the District under Section 51 is provided to reimburse the District for unreimbursed costs of special education programs, services and special education personnel. Funding under Section 51 was \$1,880,127 for the fiscal year an increase of \$238,915 from the previous year.

2. Property Taxes Levied For General Operations (Special Education Fund Non-Homestead Taxes)

The District levies 3.7825 mills of property taxes for operations (Special Education Fund) on Non-Homestead Properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or 5 percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value.

The District's non-homestead property tax revenue for the 2003-2004 fiscal year was \$6,020,658. An increase of \$291,320 from the prior year.

- * On June 10, 2002 the voters in the Shiawassee county school districts approved an increase of .40 mills to restore the tax levy rate to the original authorized rate of 3.833.

Capital Projects Fund

The districts Capital projects fund balance decreased by \$542,627. Investment earnings and state aid are the primary sources of revenue in the fund and they increased by \$168,195 from the previous year. Expenditures which are restricted for construction projects increased by \$717,720 from the prior year.

BUDGETARY HIGHLIGHTS:

GENERAL FUND BUDGET VS. ACTUAL

Fiscal Year	Original Budget	Final Budget	Actual	Variance Original & Final Budget %	Variance Actual & Final Budget %
				Budget %	& Final Budget %
Revenue	\$3,892,266	\$4,655,162	\$4,230,774	(16.39)	(9.12)
Expenditures	3,732,461	4,523,602	4,217,235	(17.49)	6.77
<u>TOTAL</u>	<u>\$159,805</u>	<u>\$131,560</u>	<u>\$13,539</u>		

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

BUDGETARY HIGHLIGHTS (Continued):

SPECIAL EDUCATION FUND BUDGET VS. ACTUAL

<u>Fiscal Year</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance Original & Final Budget %	Variance Actual & Final Budget %
Revenue	\$14,132,151	\$14,666,007	\$14,983,625	(3.64)	2.17
Expenditures	13,823,720	14,531,679	14,199,322	(4.87)	2.29
<u>TOTAL</u>	<u>\$308,431</u>	<u>\$134,328</u>	<u>\$784,303</u>		

ANALYSIS OF BUDGETS:

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

As a matter of practice, Shiawassee Regional Educational Service District amends its budget during the school year. The June, 2004 budget amendment was the final budget for the fiscal year. There were no significant variations between the original and final budget in relation to the net revenue for the year. Variances between revenue and expenses were offsetting as additional sources of revenue were offset by additional expenditures.

CAPITAL ASSET AND DEBT ADMINISTRATION

A. Debt, Principal Payments

The District made principal payments on bonded, long term debt obligations that reduced the amount of the District's long term liabilities as follows:

	Principal Balance 7-01-03	Increases 6-30-04	Principal Payments 6-30-04	Principal Balance 6-30-04
Durant Bonds	\$1,017,392	\$0	\$0	\$1,017,392
Installment Contracts	0	158,202	28,975	129,227
Vacation & Sick Days Payable	107,675	0	5,910	101,765
<u>Total Long-Term Obligations</u>	<u>\$1,125,067</u>	<u>\$158,202</u>	<u>\$34,885</u>	<u>\$1,248,384</u>

New installment contracts for computer equipment were obtained during the year.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

CAPITAL ASSET AND DEBT ADMINISTRATION: (Continued)

B. Capital Assets

The district's net investment in capital assets decreased by \$298,217 during the fiscal year. This can be summarized as follows:

	BALANCE JULY 1, 2003	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2004
Capital Assets	\$4,176,478	\$78,138	\$0	\$4,254,616
Less: Accumulated Depreciation	(1,722,393)	(376,355)	0	(2,098,748)
<u>Net Investment Capital Outlay</u>	<u>\$2,454,085</u>	<u>(\$298,217)</u>	<u>\$0</u>	<u>\$2,155,868</u>

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Business Office, Shiawassee Regional Educational Service District.

SHIAWASSEE REGIONAL EDUCATION SERVICE DISTRICT
STATEMENTS OF NET ASSETS
JUNE 30, 2004 AND 2003

	Governmental Activities	
	2004	2003
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash and Cash Equivalents	\$11,317,866	\$10,797,962
Accounts Receivable	0	393,398
Notes Receivable	192,690	197,315
Due from Other Governmental Units	1,682,295	1,684,062
Prepaid Expenses	21,051	0
Total Current Assets	<u>\$13,213,902</u>	<u>\$13,072,737</u>
<u>NON-CURRENT ASSETS</u>		
Construction in Progress	1,465,739	905,970
Capital Assets	4,254,616	4,176,478
Less: Accumulated Depreciation	(2,098,748)	(1,722,393)
Total Noncurrent Assets	<u>\$3,621,607</u>	<u>\$3,360,055</u>
<u>TOTAL ASSETS</u>	<u>\$16,835,509</u>	<u>\$16,432,792</u>
<u>LIABILITIES</u>		
<u>CURRENT LIABILITIES</u>		
Accounts Payable	0	11,405
Note Payable - Chemical Bank	258,636	219,241
Salaries Payable	799,694	998,893
Accrued Expenses	233,078	6,373
Deferred Revenue	1,029,122	1,198,668
Current Portion of Long-Term Obligations	52,734	0
Total Current Liabilities	<u>\$2,373,264</u>	<u>\$2,434,580</u>
<u>NON-CURRENT LIABILITIES</u>		
Noncurrent Portion of Long-Term Obligations	<u>1,195,650</u>	<u>1,125,067</u>
<u>TOTAL LIABILITIES</u>	<u>\$3,568,914</u>	<u>\$3,559,647</u>
<u>NET ASSETS</u>		
<u>NET ASSETS</u>		
Invested in Capital Assets, Net of Related Debt	4,384,648	4,196,505
Unrestricted	<u>8,881,947</u>	<u>8,676,640</u>
<u>TOTAL NET ASSETS</u>	<u>\$13,266,595</u>	<u>\$12,873,145</u>

See accompanying notes to the basic financial statements.

SHIAWASSEE REGIONAL EDUCATION SERVICE DISTRICT
STATEMENTS OF ACTIVITIES
JUNE 30, 2004 AND 2003

FUNCTIONS/PROGRAMS	2004			2003
	Expenses	Program Revenues		Net (Expense)
		Charges For	Operating	Revenue &
		Services	Grants and	Change in
			Contributions	Net Assets
Governmental Activities:				Net (Expense)
Instruction	\$4,048,732	\$0	\$3,189,587	Revenue &
Support Services	14,362,224	1,699,424	2,947,241	Change in
Community Services	463	0	0	Net Assets
Interest - Long-Term Obligations	0	0	0	
Depreciation - Unallocated	36,021	0	0	
TOTALS	\$18,447,440	\$1,699,424	\$6,136,828	(\$10,611,188)
General Revenues:				
Taxes:				
Property Taxes, Levied for General Purposes				6,386,367
State Aid				4,457,213
Investment Earnings				62,838
Miscellaneous				98,220
Total General Revenues and Transfers				\$11,004,638
Change in Net Assets				\$393,450
Net Assets - Beginning - As Restated				12,873,145
Net Assets - Ending				\$13,266,595

See accompanying notes to the basic financial statements.

SHIAWASSEE REGIONAL EDUCATION SERVICE DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	General	Special	Other	Total
	Fund	Education	Governmental	Governmental
	Fund	Fund	Funds	Funds
<u>ASSETS</u>				
Cash and Cash Equivalents	\$3,583,980	\$5,824,226	\$1,909,660	\$11,317,866
Notes Receivable	192,690	0	0	192,690
Due From Other Governmental Units	1,682,295	0	0	1,682,295
Due From Other Funds	163,603	0	0	163,603
Prepaid Expenses	21,051	0	0	21,051
<u>TOTAL ASSETS</u>	<u>\$5,643,619</u>	<u>\$5,824,226</u>	<u>\$1,909,660</u>	<u>\$13,377,505</u>
<u>LIABILITIES</u>				
Note Payable - Chemical Bank	\$258,636	\$0	\$0	\$258,636
Due to Other Funds	0	163,603	0	163,603
Salaries Payable	799,694	0	0	799,694
Accrued Expenses	0	233,078	0	233,078
Deferred Revenue	1,026,226	2,896	0	1,029,122
Total Liabilities	\$2,084,556	\$399,577	\$0	\$2,484,133
<u>FUND BALANCES</u>				
Reserved For:				
Capital Projects	0	0	1,909,660	1,909,660
Designated for Subsequent Years Expenditures	2,904,280	2,214,528	0	5,118,808
Unreserved:				
Undesignated, Reported In:				
General Fund	654,783	0	0	654,783
Special Education Fund	0	3,210,121	0	3,210,121
Total Fund Balances	\$3,559,063	\$5,424,649	\$1,909,660	\$10,893,372
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$5,643,619</u>	<u>\$5,824,226</u>	<u>\$1,909,660</u>	<u>\$13,377,505</u>

See accompanying notes to the basic financial statements.

SHIAWASSEE REGIONAL EDUCATION SERVICE DISTRICT
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2004

Total Governmental Fund Balances: \$10,893,372

Amounts reported for governmental activities in the statement of
net assets are different because:

Capital assets used in governmental activities are not financial
resources and therefore are not reported as assets in governmental
funds. The cost of the assets is \$4,254,616 and the
accumulated depreciation is \$2,098,748 2,155,868

Construction in Progress 1,465,739

Long-term liabilities, including bonds payable, are not due and
payable in the current period and therefore are not reported as
liabilities in the funds. Long-term liabilities at year end consist of:

Bonds Payable	\$1,017,392	
Installment Contracts	129,227	
Compensated Absences Payable	101,765	
Total Long-Term Liabilities	<u>1,248,384</u>	(1,248,384)

TOTAL NET ASSETS -
GOVERNMENTAL ACTIVITIES \$13,266,595

SHIAWASSEE REGIONAL EDUCATION SERVICE DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

	General	Special	Other	Total
	Fund	Education	Governmental	Governmental
	Fund	Fund	Funds	Funds
<u>REVENUES</u>				
Local Sources	\$555,759	\$6,808,769	\$17,704	\$7,382,232
State Sources	1,227,481	4,824,179	159,249	6,210,909
Federal Sources	868,016	2,787,118	0	3,655,134
Total Revenues	\$2,651,256	\$14,420,066	\$176,953	\$17,248,275
<u>EXPENDITURES</u>				
Current:				
Instruction	1,017,881	3,030,851	0	4,048,732
Student Services	794,389	5,501,110	0	6,295,499
Instructional Support	1,044,524	1,220,381	0	2,264,905
General Administration	301,182	0	0	301,182
Business Administration	226,285	50,145	0	276,430
Operation & Maintenance of Plant	172,037	275,358	0	447,395
Transportation	0	1,078,372	0	1,078,372
Support Services - Other	660,937	77,982	0	738,919
Community Services	0	463	0	463
Capital Outlay	0	0	719,580	719,580
Total Expenditures	\$4,217,235	\$11,234,662	\$719,580	\$16,171,477
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	(\$1,565,979)	\$3,185,404	(\$542,627)	\$1,076,798
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers from (to) Other Funds	550,463	(550,463)	0	0
Other Transfers	1,029,055	(1,850,638)	0	(821,583)
Total Other Financing Sources (Uses)	\$1,579,518	(\$2,401,101)	\$0	(\$821,583)
Net Change in Fund Balance	\$13,539	\$784,303	(\$542,627)	\$255,215
<u>FUND BALANCE - BEGINNING</u>	3,545,524	4,640,346	2,452,287	10,638,157
<u>FUND BALANCE - ENDING</u>	\$3,559,063	\$5,424,649	\$1,909,660	\$10,893,372

See accompanying notes to the basic financial statements.

SHIAWASSEE REGIONAL EDUCATION SERVICE DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004

Total net change in fund balances - governmental funds	\$255,215
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.	(298,217)
Construction in Progress	559,769
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of repayments reported as expenditures in the governmental funds.	28,975
Proceeds from Installment Contracts	(158,202)
Change in accrued interest on long-term liabilities	0
Decrease in accrued compensated absences	<u>5,910</u>
<u>CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES</u>	<u><u>\$393,450</u></u>

SHIAWASSEE REGIONAL EDUCATION SERVICE DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2004

	Trust & Agency
<u>ASSETS</u>	
Cash and Cash Equivalents	<u>\$7,642</u>
<u>TOTAL ASSETS</u>	<u><u>\$7,642</u></u>
<u>LIABILITIES</u>	
Due to Student Groups	<u>\$7,642</u>
<u>TOTAL LIABILITIES</u>	<u><u>\$7,642</u></u>

See accompanying notes to the basic financial statements.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

1) REPORTING ENTITY

The accompanying basic financial statements have been prepared in accordance with criteria established by the GASB for determining the various governmental organizations to be included in the reporting entity. These criteria include oversight responsibility, scope of public service, and special financing arrangements. Based on application of the criteria, the entity does not contain component units.

The District receives funding from local, state, federal and interdistrict government sources and must comply with the accompanying requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" body that has separate legal standing and is fiscally independent of the governmental entities. As such, the Board of Education has decision-making authority, the authority to levy taxes, and determine its budget, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Shiawassee Regional Educational Service District conform to generally accepted accounting principles as applicable to school districts. The following is a summary of the significant accounting policies:

In June 1999 the Governmental Accounting Standards Board (GASB) issued Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments. Certain of the significant changes in the Statement include the following:

A Management Discussion and Analysis (MD&A) section to provide an analysis of the District’s overall financial position and results of operations.

Financial statements prepared with full accrual accounting for all of the District’s activities.

- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements and notes to the financial statements.

A) BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS

The District’s basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District’s major funds). The government-wide financial statements categorize primary activities as either governmental or business type. All of the District’s activities are classified as governmental activities. Fiduciary funds are not included in the government-wide financial statements.

In the government-wide Statement of Net Assets, the governmental activities column is presented on a consolidated basis and is reported on a full-accrual economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District’s net assets are reported in three parts: invested in capital assets net of related debt; restricted net assets; and unrestricted net assets. The District first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the District’s functions. General government revenues also support the functions. The Statement of Activities reduces gross expenses by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary grants. The net costs by function are normally covered by general revenue (property taxes, state and federal sources, interest income, etc.).

The District does not allocate indirect costs. Inter-fund transactions have been eliminated in the government-wide financial statements.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B) BASIC FINANCIAL STATEMENTS - FUND FINANCIAL STATEMENTS

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the general-purpose financial statements in this report, into five generic fund types in two broad fund categories as follows:

Governmental Funds

Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use, and balances of the District's expendable financial resources and the related current liabilities are accounted for through governmental funds.

General Fund

The General Fund is used to record the general operations of the District pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved current operating budget.

Special Education Fund – The special education fund is used to account for financial resources to be used specifically for providing special education services to students within the School District.

Debt Retirement Fund

The Debt Retirement Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Fund

The Capital Projects Fund is used to account for the acquisition and construction of major facilities by the School District.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The District's fiduciary funds consist of agency funds which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency funds are used to account for amount held for student and employee groups.

C) BASIS OF ACCOUNTING/MEASUREMENT FOCUS

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Accrual

Governmental activity in the government-wide financial statements is presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C) BASIS OF ACCOUNTING/MEASUREMENT FOCUS (Continued)

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt is recognized when due.

Those revenues susceptible to accrual are property taxes, state aid, interest revenue, grants and charges for services. Other revenue is recorded when received.

The District reports deferred revenue on its governmental funds balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when the District receives resources before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

D) CASH AND CASH EQUIVALENTS

The District considers highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Investments are reported at fair value which is determined using selected bases. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national exchange are valued at the last reported sales price and investments that do not have an established market are reported at estimated fair value. Cash deposits are reported at carrying amount which reasonably estimates fair value.

E) PREPAID ASSETS

Payments made to vendors for services that will benefit periods beyond June 30, 2004, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

F) INVENTORY

On government-wide financial statements are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

G) CAPITAL ASSETS

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G) CAPITAL ASSETS (Continued)

All capital assets are capitalized at cost (or estimated historical cost) using a \$5,000 capitalization threshold and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of one hundred dollars. The School District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not. Interest incurred during the construction of capital assets is also capitalized.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities</u> <u>Estimated Lives</u>
Buildings and Improvements	20 – 50 years
Furniture and Equipment	5 – 10 years
Vehicles and Buses	5 years

H) INTERFUND BALANCES

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental activities columns of the statement of net assets.

I) COMPENSATED ABSENCES

The School District reports compensated absences in accordance with the provisions of GASB Statement No. 16, “Accounting for Compensated Absences.” Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District’s past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts, if any, are recorded in the account “compensated absences payable” in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

J) ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J) ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS (Continued)

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, compensated absences, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

K) FUND BALANCE RESERVES

The School District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods.

L) NET ASSETS

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

M) ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

N) BUDGETARY DATA

The budgetary process is prescribed by provisions of the State of Michigan Budget Act and entails the preparation of budgetary documents within an established timetable. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control has been established by the Board of Education at the function level. Any budgetary modifications may only be made by resolution of the Board of Education.

The School District follows these procedures in establishing the budgets for the individual funds as reflected in the financial statements.

- 1) Prior to June 30, the Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1.
- 2) A public hearing is conducted during June to obtain taxpayer comments.
- 3) Prior to June 30, the budget is legally enacted through passage of a resolution.
- 4) For purposes of meeting emergency needs of the School District, transfer of appropriations may be made by the authorization of the Superintendent. Such transfers of appropriations must be approved by the Board of Education at its next regularly scheduled meeting.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N) BUDGETARY DATA (Continued)

- 5) The School Superintendent is charged with general supervision of the budget and shall hold the department heads responsible for performance of their responsibilities.
- 6) During the year the budget is monitored, and amendments to the budget resolution are made when deemed necessary.

3) STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY – BUDGET VIOLATIONS

P.A. 621 of 1978, Section 18 (1), as amended provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the School District's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the School District for these budgetary funds were adopted to the functional level.

During the year ended June 30, 2004, the School incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated.

4) DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the District to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

Protection of the School District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC).

The following information classifies deposits and investments by categories of risk as defined by GASB Statement No. 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements."

Deposits - The Board of Education authorized the following financial institutions for the deposit of the District's funds for the year ended June 30, 2004: Chemical Bank, Fifth Third Bank and MILAF. The Board also authorized the business office to invest funds with financial institutions that gave the maximum interest rate of return upon receipt of quotes.

The District's deposits are in accordance with statutory authority.

At June 30, 2004, the carrying amount of the School District's deposits was \$11,325,508 and the bank balance was \$11,114,284. \$300,000 of the bank balance was covered by federal depository insurance and \$10,814,284 was uninsured and uncollateralized.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

4) DEPOSITS AND INVESTMENTS (Continued)

Investments - The School District's investments are required to be categorized to give an indication of the level of risk assumed by the District at June 30, 2004. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments for which securities are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or its trust department or agent but not in the School District's name.

The District had no investments at June 30, 2004.

5) PROPERTY TAXES

The School District levies its property taxes on December 1 and various municipalities collect its property taxes and remit them to the District through February. The delinquent real property taxes of the District are purchased by the County, and delinquent personal property taxes continue to be collected by the municipalities and recorded as revenue as they are collected. The county sells tax notes, the proceeds of which have been used to pay the District for these delinquent real property taxes. These delinquent real property taxes have been recorded as revenue in the current year.

6) RECEIVABLES

Receivables at June 30, 2004, consist of taxes, accounts (fees), intergovernmental grants and interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables (due from other governmental units) follows:

<u>GOVERNMENTAL ACTIVITIES</u>	<u>AMOUNT</u>
State Aid	\$ 993,775
Federal Grants	688,520
<u>TOTAL GOVERNMENTAL ACTIVITIES</u>	<u>\$ 1,682,295</u>

7) UNEMPLOYMENT COMPENSATION

The District is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the District must reimburse the Employment Commission for all benefits charged against the District for the year. As of June 30, 2004, the School District had estimated claims of \$1,113 in conjunction with the program.

8) SHORT-TERM DEBT

The District has various options for short-term financing including tax anticipation notes, state aid anticipation notes and lines of credit. The District entered into no short-term financing arrangements during the fiscal year ended June 30, 2004.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

9) CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	BALANCE JULY 1, 2003	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2004
<u>GOVERNMENTAL ACTIVITIES</u>				
Buildings and Improvements	\$1,768,464	\$0	\$0	\$1,768,464
Land Improvements	18,504	14,556	0	33,060
Equipment and Furniture	1,068,266	0	0	1,068,266
Vehicles	1,321,244	63,582	0	1,384,826
Totals at Historical Cost	\$4,176,478	\$78,138	\$0	\$4,254,616
Less: Accumulated Depreciation				
Buildings and Improvements	(615,090)	(36,021)	0	(651,111)
Land Improvements	(15,979)	(253)	0	(16,232)
Equipment and Furniture	(358,146)	(179,930)	0	(538,076)
Vehicles	(733,178)	(160,151)	0	(893,329)
Total Accumulated Depreciation	<u>(\$1,722,393)</u>	<u>(\$376,355)</u>	<u>\$0</u>	<u>(\$2,098,748)</u>
<u>GOVERNMENTAL ACTIVITIES</u>				
<u>CAPITAL ASSETS - NET</u>	<u>\$2,454,085</u>	<u>(\$298,217)</u>	<u>\$0</u>	<u>\$2,155,868</u>

Depreciation expense, when appropriate, was allocated to governmental functions. Depreciation expense that was not allocated appears on the statement of activities as "unallocated". Depreciation was recorded on the statement of activities as follows:

Support Services	\$ 340,334
Unallocated	<u>36,021</u>
<u>TOTAL DEPRECIATION EXPENSE</u>	<u>\$ 376,355</u>

Investment in capital assets – net of related debt consists of the following:

Construction in Progress	\$ 1,465,739
Capital Assets	4,254,616
Less: Accumulated Depreciation	(2,098,748)
Less: Long-Term Liabilities	(1,248,384)
Compensated Absences	101,765
Capital Projects Fund Equity	<u>1,909,660</u>
<u>TOTAL</u>	<u>\$ 4,384,648</u>

10) SELF INSURANCE POOL

The School District participates in a public entity risk pool (self-insurance pool) for its workers' compensation, property and casualty, general liability, and boiler insurance. The pool is through the MASB/SET/SEG and is administered by Corporate Services. The pool provides for reinsurance by various insurance companies at various levels, depending on the coverage. Should the pool experience significant losses in the aggregate, the School District may be required to pay additional monies to the pool. At present, the MASB/SET/SEG has not required additional funds, but rather has issued refunds based on experience gains over experience losses over the last few years. Premiums for the year ended June 30, 2004 were \$37,530.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

11) GENERAL LONG-TERM DEBT

A) Durant Resolution Package Bonds

Shiawassee Regional Educational Service District issued Durant Resolution Bonds on November 24, 1998 in the amount of \$2,106,774 at the interest rate of 4.7613%. The bonds are a legal obligation of the school district but the annual State of Michigan appropriation is the only revenue source for making the annual debt service payments on the bonds. If the legislature fails to appropriate the bonds, the district is under no obligation for payment. The balance at June 30, 2004 was \$1,017,392. The legislature refinanced the repayment schedule during the year ended June 30, 2003.

B) Installment Contracts

Shiawassee Regional Educational Service District is indebted to Dell Marketing, L.P. in the amount of \$142,557 for computer equipment. The notes require annual principal payments per annum of \$47,519 and interest at 2.48% per annum. The contract matures October, 2006. The balance as of June 30, 2004 was \$118,787.

Shiawassee Regional Educational Service District is indebted to Gateway Business in the amount of \$15,645 for computer equipment. The notes require annual principal payments per annum of \$5,215 and interest at 2.48% per annum. The contract matures March, 2006. The balance as of June 30, 2004 was \$10,430.

C) Annual Principal Requirements

The annual principal requirements for all debts outstanding as of June 30, 2004 are as follows:

	INSTALLMENT CONTRACTS	BONDS PAYABLE	INTEREST	TOTAL
June 30, 2005	\$52,734	\$0	\$2,652	\$55,386
June 30, 2006	52,734	77,083	36,220	166,037
June 30, 2007	23,759	80,734	31,372	135,865
June 30, 2008	0	84,598	27,233	111,831
June 30, 2009	0	88,627	23,205	111,832
June 30, 2010-2013	0	686,350	176,853	863,203
<u>TOTAL</u>	<u>\$129,227</u>	<u>\$1,017,392</u>	<u>\$297,535</u>	<u>\$1,444,154</u>

The payment dates of sick days payable is undeterminable.

The interest expenditures on long-term obligations for the year were \$196.

D) Changes in General Long-Term Debt

	BALANCE JULY 1, 2003	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2004	AMOUNT DUE IN ONE YEAR
<u>Governmental Activities:</u>					
Durant Bonds	\$1,017,392	\$0	\$0	\$1,017,392	\$0
Installment Contracts	0	158,202	28,975	129,227	52,734
Vacation & Sick Days Payable	107,675	0	5,910	101,765	0
<u>Total Governmental Activities</u>	<u>\$1,125,067</u>	<u>\$158,202</u>	<u>\$34,885</u>	<u>\$1,248,384</u>	<u>\$52,734</u>

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

12) INTERFUND ACTIVITY

Interfund balances at June 30, 2004 consisted of the following:

DUE FROM	
DUE TO	GENERAL
	FUND
Special Education Fund	<u>\$163,603</u>

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between funds are made.

13) INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2004, consisted of the following:

TRANSFERS FROM	
TRANSFERS TO	SPECIAL
	EDUCATION
	FUND
General Fund	<u>\$550,463</u>

The transfers are reimbursements to the general fund from the special education fund for overhead costs that are calculated annually and approved by the board.

14) DEFINED BENEFIT PENSION PLAN

Plan Description

The School District participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. The MPERS provides retirement, survivor and disability benefits to plan members and their beneficiaries. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for the MPERS. That report may be obtained by writing to the MPERS at 7150 Harris Drive, PO Box 30673, Lansing, MI 48909-8103.

Funding Policy

Employer contributions to the MPERS result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The pension benefit rate totals 12.99 percent for the period July 1, 2003 through September 30, 2003 and 12.99 percent for the period October 1, 2003 through June 30, 2004 of the covered payroll to the plan. Basic plan members make no contributions, but contribute to a member investment plan (MIP) at rates ranging from 3 percent to 4.3 percent of gross wages. The School District's contributions to the MPERS pension plan for the years ended June 30, 2004, 2003 and 2002 were \$1,066,618, \$1,018,797 and \$922,773, respectively.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

14) DEFINED BENEFIT PENSION PLAN (Continued)

Postemployment Benefits

Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverages. Required contributions for postemployment health care benefits are included as part of the School District's total contribution to the MPSERS pension plan discussed above.

15) RISK MANAGEMENT

The District is exposed to various risks of loss in conducting its operations, from property and casualty theft, damage to various tort and liability claims and workman's compensation claims. The District limits its exposure to such claims through its participation in and payments of premiums to SET-SEG, Inc. Insurance Trust. This pool maintains a loss fund and is also required by the terms of the participation agreement to obtain insurance and reinsurance as necessary.

The terms of the participation agreement with the pool indicate that, should losses of the pool incurred in a given coverage period exceed the loss fund and the aggregate excess reinsurance, the fund may access its member districts on a pro-rata basis to cover excess losses. In past years the loss fund has exceeded the amount necessary to maintain prudent loss reserves, resulting in annual premium refunds to member districts. The District's management believes that participation in this pool provides sufficient coverage to protect the District from any significant adverse financial impact.

16) CONTINGENCIES AND COMMITMENTS

The District participates in a number of federally assisted grant programs, principal of which are the Special Education Cluster Grants. These programs are subject to program compliance audits. The audit of these programs for and including the year ended June 30, 2004, have been conducted and have been reported in this audit report. However, the compliance audit reports have not yet been accepted by the grantors. The amount, if any, of expenditures which may be disallowed by the grantor agencies cannot be determined at this time; although the District expects such amounts, if any, to be immaterial.

REQUIRED
SUPPLEMENTARY
INFORMATION

SHIAWASSEE REGIONAL EDUCATION SERVICE DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<u>REVENUES</u>				
Local Sources	\$552,453	\$659,744	\$555,759	(\$103,985)
State Sources	1,040,647	1,306,621	1,227,481	(79,140)
Federal Sources	597,384	952,207	868,016	(84,191)
Total Revenues	<u>\$2,190,484</u>	<u>\$2,918,572</u>	<u>\$2,651,256</u>	<u>(\$267,316)</u>
<u>EXPENDITURES</u>				
Current:				
Instruction	873,432	1,088,591	1,017,881	70,710
Student Services	533,239	939,934	794,389	145,545
Instructional Support	1,038,990	1,175,390	1,044,524	130,866
General Administration	334,150	307,676	301,182	6,494
Business Administration	244,483	238,483	226,285	12,198
Operation & Maintenance of Plant	183,802	188,405	172,037	16,368
Support Services - Other	524,365	585,123	660,937	(75,814)
Total Expenditures	<u>\$3,732,461</u>	<u>\$4,523,602</u>	<u>\$4,217,235</u>	<u>\$306,367</u>
Excess of Revenues Over Expenditures	<u>(\$1,541,977)</u>	<u>(\$1,605,030)</u>	<u>(\$1,565,979)</u>	<u>\$39,051</u>
<u>OTHER FINANCING SOURCES (USES)</u>	<u>1,701,782</u>	<u>1,736,590</u>	<u>1,579,518</u>	<u>(157,072)</u>
Total Other Financing Sources (Uses)	<u>\$1,701,782</u>	<u>\$1,736,590</u>	<u>\$1,579,518</u>	<u>(\$157,072)</u>
Net Change in Fund Balance	<u>\$159,805</u>	<u>\$131,560</u>	<u>\$13,539</u>	<u>(\$118,021)</u>
<u>FUND BALANCE - BEGINNING</u>			<u>3,545,524</u>	
<u>FUND BALANCE - ENDING</u>			<u>\$3,559,063</u>	

SHIAWASSEE REGIONAL EDUCATION SERVICE DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
SPECIAL EDUCATION FUND
FOR THE YEAR ENDED JUNE 30, 2004

	<u>Budgeted Amounts</u>			
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
<u>REVENUES</u>				
Local Sources	\$6,047,683	\$6,057,300	\$6,808,769	\$751,469
State Sources	5,059,500	5,306,400	4,824,179	(482,221)
Federal Sources	2,624,968	2,811,307	2,787,118	(24,189)
Total Revenues	<u>\$13,732,151</u>	<u>\$14,175,007</u>	<u>\$14,420,066</u>	<u>\$245,059</u>
<u>EXPENDITURES</u>				
Current:				
Instruction	3,150,910	3,081,498	3,030,851	50,647
Student Services	5,520,306	5,621,658	5,501,110	120,548
Instructional Support	1,215,687	1,303,686	1,220,381	83,305
Business Administration	101,000	101,000	50,145	50,855
Operation & Maintenance of Plant	271,965	279,965	275,358	4,607
Transportation	1,211,452	1,178,852	1,078,372	100,480
Support Services - Other	70,000	80,000	77,982	2,018
Community Services	0	0	463	(463)
Total Expenditures	<u>\$11,541,320</u>	<u>\$11,646,659</u>	<u>\$11,234,662</u>	<u>\$411,997</u>
Excess of Revenues Over Expenditures	<u>\$2,190,831</u>	<u>\$2,528,348</u>	<u>\$3,185,404</u>	<u>\$657,056</u>
<u>OTHER FINANCING SOURCES (USES)</u>	<u>(1,882,400)</u>	<u>(2,394,020)</u>	<u>(2,401,101)</u>	<u>(7,081)</u>
Total Other Financing Sources (Uses)	<u>(\$1,882,400)</u>	<u>(\$2,394,020)</u>	<u>(\$2,401,101)</u>	<u>(\$7,081)</u>
Net Change in Fund Balance	<u>\$308,431</u>	<u>\$134,328</u>	<u>\$784,303</u>	<u>\$649,975</u>
<u>FUND BALANCE - BEGINNING</u>			<u>4,640,346</u>	
<u>FUND BALANCE - ENDING</u>			<u>\$5,424,649</u>	

OTHER SUPPLEMENTAL
INFORMATION

SHIAWASSEE REGIONAL EDUCATION SERVICE DISTRICT
CAPITAL PROJECTS FUND
COMBINING BALANCE SHEET
AS OF JUNE 30, 2004

	<u>Building & Site</u>	<u>1992 Construction</u>	<u>Durant I</u>	<u>Durant II</u>	<u>TOTAL</u>
<u>ASSETS</u>					
Cash and Cash Equivalents	<u>\$531,047</u>	<u>\$71,007</u>	<u>\$598,870</u>	<u>\$708,736</u>	<u>\$1,909,660</u>
<u>FUND EQUITY</u>					
Fund Balance - Reserved Capital Projects	<u>\$531,047</u>	<u>\$71,007</u>	<u>\$598,870</u>	<u>\$708,736</u>	<u>\$1,909,660</u>

SHIAWASSEE REGIONAL EDUCATION SERVICE DISTRICT
CAPITAL PROJECTS FUND
COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2004

	<u>Building & Site</u>	<u>1992 Construction</u>	<u>Durant I</u>	<u>Durant II</u>	<u>TOTAL</u>
<u>REVENUES</u>					
<u>Local Sources</u>					
Earnings on Investments and Deposits	\$2,679	\$0	\$4,663	\$9,432	\$16,774
Miscellaneous Revenue	930	0	0	0	930
Total Local Sources	<u>\$3,609</u>	<u>\$0</u>	<u>\$4,663</u>	<u>\$9,432</u>	<u>\$17,704</u>
<u>State Sources</u>	<u>0</u>	<u>0</u>	<u>159,249</u>	<u>0</u>	<u>159,249</u>
Total Revenues	<u>\$3,609</u>	<u>\$0</u>	<u>\$163,912</u>	<u>\$9,432</u>	<u>\$176,953</u>
<u>EXPENDITURES</u>					
Purchased Services	0	0	103,107	559,769	662,876
Miscellaneous Expenses	0	0	49,691	7,013	56,704
Total Expenditures	<u>\$0</u>	<u>\$0</u>	<u>\$152,798</u>	<u>\$566,782</u>	<u>\$719,580</u>
<u>EXCESS REVENUES OVER (UNDER) EXPENDITURES</u>	<u>\$3,609</u>	<u>\$0</u>	<u>\$11,114</u>	<u>(\$557,350)</u>	<u>(\$542,627)</u>
<u>FUND BALANCE - BEGINNING OF YEAR</u>	<u>527,438</u>	<u>71,007</u>	<u>587,756</u>	<u>1,266,086</u>	<u>2,452,287</u>
<u>FUND BALANCE - END OF YEAR</u>	<u>\$531,047</u>	<u>\$71,007</u>	<u>\$598,870</u>	<u>\$708,736</u>	<u>\$1,909,660</u>

INDIVIDUAL FUND SCHEDULES OF
REVENUES, EXPENDITURES AND
OTHER FINANCING USES

SHIAWASSEE REGIONAL EDUCATION SERVICE DISTRICT
GENERAL FUND
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
FOR THE YEAR ENDED JUNE 30, 2004

REVENUES FROM
Local Sources

Current Tax Levy	\$365,709
Earnings on Investments and Deposits	27,106
Other Local Revenues	162,944
Total Local Sources	<u>\$555,759</u>

State Sources

ASAP Pie Grant	300,327
Section 81	844,021
Gifted and Talented	28
Vocational Education	26,724
Great Parents	42,789
Other State Grants	13,592
Total State Sources	<u>\$1,227,481</u>

Federal Sources

IASA Title V	809
Vocational Education	495,930
Work Force Investment Act	341,356
Improving Teacher Quality	991
Tech Prep	28,930
Total Federal Sources	<u>\$868,016</u>
Total Revenues	<u>\$2,651,256</u>

OTHER FINANCING SOURCES

Transfers from Other Funds	550,463
Transfers from Other Districts	801,587
Other Transfers	227,468
Total Other Financing Sources	<u>\$1,579,518</u>

TOTAL REVENUES AND OTHER FINANCING SOURCES
\$4,230,774

SHIAWASSEE REGIONAL EDUCATION SERVICE DISTRICT
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2004

INSTRUCTIONVocational Education

Salaries - Professional	\$86,597
Salaries - Non-Professional	69,857
Insurances	42,758
Fica, Retirement, Etc.	35,941
Purchased Services	179,821
Supplies and Materials	56,683
Other	3,334
Total Vocational Education	<u>\$474,991</u>

Adult Education

Salaries - Professional	175,709
Salaries - Non-Professional	117,229
Insurances	20,565
Fica, Retirement, Etc.	32,015
Purchased Services	100,537
Supplies and Materials	69,747
Other	27,088
Total Adult Education	<u>\$542,890</u>

Total Instruction

\$1,017,881

SUPPORT SERVICESStudent Services

Salaries - Professional	86,284
Salaries - Non-Professional	38,589
Insurances	32,196
Fica, Retirement, Etc.	22,476
Purchased Services	582,773
Supplies and Materials	15,119
Other	16,952
Total Student Services	<u>\$794,389</u>

Instructional Staff

Salaries - Professional	160,064
Salaries - Non-Professional	300,663
Insurances	98,950
Fica, Retirement, Etc.	91,460
Purchased Services	221,709
Supplies and Materials	78,110
Capital Outlay	5,860
Other	87,708
Total Instructional Staff	<u>\$1,044,524</u>

General AdministrationBoard of Education

Salaries - Professional	1,840
Purchased Services	4,186
Supplies and Materials	2,250
Total Board of Education	<u>\$8,276</u>

SHIAWASSEE REGIONAL EDUCATION SERVICE DISTRICT
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2004

SUPPORT SERVICES (Continued)

General Administration

Executive Administration

Salaries - Professional	\$122,273
Salaries - Non-Professional	45,103
Insurances	28,753
Fica, Retirement, Etc.	33,380
Purchased Services	41,123
Supplies and Materials	7,203
Capital Outlay	7,149
Other	7,922
Total Executive Administration	<u>\$292,906</u>

Total General Administration	\$301,182
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Business Office

Salaries - Professional	142,936
Insurances	36,440
Fica, Retirement, Etc.	29,510
Purchased Services	10,231
Supplies and Materials	4,775
Other	2,393
Total Business Office	<u>\$226,285</u>

Operation and Maintenance

Salaries - Non-Professional	30,534
Insurances	12,419
Fica, Retirement, Etc.	6,067
Purchased Services	118,306
Supplies and Materials	4,205
Capital Outlay	506
Total Operation and Maintenance	<u>\$172,037</u>

Other Support Services

Salaries - Professional	39,031
Salaries - Non-Professional	241,274
Insurances	68,840
Fica, Retirement, Etc.	55,378
Purchased Services	99,819
Supplies and Materials	52,577
Other	104,018
Total Other Support Services	<u>\$660,937</u>

<u>Total Support Services</u>	<u>\$3,199,354</u>
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<u>TOTAL EXPENDITURES</u>	<u><u>\$4,217,235</u></u>
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SHIAWASSEE REGIONAL EDUCATION SERVICE DISTRICT
SPECIAL EDUCATION FUND
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
FOR THE YEAR ENDED JUNE 30, 2004

REVENUES FROM
Local Sources

Property Tax Levy	\$6,020,658
Earnings on Investments and Deposits	18,958
Transportation	11,813
Medicaid	714,732
Other Local Revenues	42,608
Total Revenues from Local Sources	<u>\$6,808,769</u>

State Sources

Special Education - Sec 51 a	1,880,127
Section 52	1,239,902
Section 56	1,273,816
Section 81	300,000
Other State Grants	130,334
Total Revenues from State Sources	<u>\$4,824,179</u>

Federal Sources

I.D.E.A. Flowthrough	2,124,891
Preschool	118,793
State Initiated	40,000
Transition Services	70,000
Capacity Building	38,617
Even Start	236,052
Early On	109,229
State Improvement	3,200
Special Education from GISD	3,239
Medicaid - Transportation	43,097
Total Revenues from Federal Sources	<u>\$2,787,118</u>
Total Revenues	<u>\$14,420,066</u>

OTHER FINANCING SOURCES

Transfers from Other Districts	<u>563,559</u>
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TOTAL REVENUES AND OTHER FINANCING SOURCES

\$14,983,625

SHIAWASSEE REGIONAL EDUCATION SERVICE DISTRICT
SPECIAL EDUCATION FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2004

INSTRUCTION

Salaries - Professional	\$1,215,196
Salaries - Non-Professional	611,731
Insurances	520,315
Fica, Retirement, Etc.	373,257
Purchased Services	254,019
Supplies and Materials	43,979
Capital Outlay	12,354
<u>Total Instruction</u>	<u>\$3,030,851</u>

SUPPORT SERVICESStudent ServicesHealth

Salaries - Professional	444,095
Salaries - Non-Professional	75,949
Insurances	114,061
Fica, Retirement, Etc.	99,050
Purchased Services	67,806
Supplies and Materials	3,431
Capital Outlay	935
<u>Total Health</u>	<u>\$805,327</u>

Psychological

Salaries - Professional	436,866
Insurances	88,914
Fica, Retirement, Etc.	91,843
Purchased Services	8,712
Supplies and Materials	9,135
<u>Total Psychological</u>	<u>\$635,470</u>

Speech Pathology

Salaries - Professional	803,080
Salaries - Non-Professional	24,452
Insurances	185,951
Fica, Retirement, Etc.	171,308
Purchased Services	14,404
Supplies and Materials	12,504
<u>Total Speech Pathology</u>	<u>\$1,211,699</u>

Social Worker

Salaries - Professional	1,373,590
Insurances	222,557
Fica, Retirement, Etc.	283,509
Purchased Services	66,904
Supplies and Materials	27,047
<u>Total Social Worker</u>	<u>\$1,973,607</u>

SHIAWASSEE REGIONAL EDUCATION SERVICE DISTRICT
SPECIAL EDUCATION FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2004

SUPPORT SERVICES (Continued)

Student Services (Continued)

Infant/Toddler

Salaries - Professional	\$194,352
Insurances	39,067
Fica, Retirement, Etc.	39,280
Purchased Services	5,055
Supplies and Materials	4,613
Total Infant/Toddler	<u>\$282,367</u>

Other Pupil Support

Salaries - Professional	255,218
Salaries - Non-Professional	57,592
Insurances	108,679
Fica, Retirement, Etc.	55,265
Purchased Services	96,798
Supplies and Materials	17,090
Capital Outlay	1,998
Total Other Pupil Support	<u>\$592,640</u>

Total Student Services	\$5,501,110
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Instructional Support

Professional Development

Purchased Services	17,977
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Supervision & Direction

Salaries - Professional	411,728
Salaries - Non-Professional	148,160
Insurances	124,142
Fica, Retirement, Etc.	116,923
Purchased Services	180,709
Supplies and Materials	16,539
Other	12,444
Total Supervision & Direction	<u>\$1,010,645</u>

Development Center

Salaries - Professional	79,435
Salaries - Non-Professional	44,554
Insurances	28,706
Fica, Retirement, Etc.	25,715
Purchased Services	6,748
Supplies and Materials	6,601
Total Development Center	<u>\$191,759</u>

Total Instructional Support	\$1,220,381
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SHIAWASSEE REGIONAL EDUCATION SERVICE DISTRICT
SPECIAL EDUCATION FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2004

<u>SUPPORT SERVICES (Continued)</u>	
<u>Business Office</u>	
Fica, Retirement, Etc.	\$2,354
Purchased Services	22,015
Supplies and Materials	25,776
Total Business Office	<u>\$50,145</u>
<u>Operation and Maintenance</u>	
Salaries - Non-Professional	75,631
Insurances	24,838
Fica, Retirement, Etc.	15,610
Purchased Services	104,185
Supplies and Materials	7,522
Capital Outlay	47,572
Total Operation and Maintenance	<u>\$275,358</u>
<u>Transportation</u>	
Salaries - Professional	40,138
Salaries - Non-Professional	459,460
Insurances	174,164
Fica, Retirement, Etc.	106,761
Purchased Services	104,233
Supplies and Materials	130,034
Capital Outlay	63,582
Total Transportation	<u>\$1,078,372</u>
<u>Other Support Services</u>	
Salaries - Professional	28,375
Insurances	12,419
Purchased Services	36,896
Supplies and Materials	292
Total Other Support Services	<u>\$77,982</u>
<u>Total Support Services</u>	<u>\$8,203,348</u>
<u>COMMUNITY SERVICES</u>	
Purchased Services	182
Supplies and Materials	188
Other	93
Total Community Services	<u>\$463</u>
<u>Total Expenditures</u>	<u>\$11,234,662</u>
<u>OTHER FINANCING USES</u>	
Transfers to Other Funds	550,463
Transfers to Other Districts	2,414,197
Total Other Financing Uses	<u>\$2,964,660</u>
<u>TOTAL EXPENDITURES & OTHER FINANCING USES</u>	<u>\$14,199,322</u>

SHIAWASSEE REGIONAL EDUCATION SERVICE DISTRICT
TRUST AND AGENCY FUND
SCHEDULE OF RECEIPTS AND DISBURSEMENTS - OTHER GROUPS
FOR THE YEAR ENDED JUNE 30, 2004

	DUE TO (FROM) OTHER GROUPS			DUE TO (FROM) OTHER GROUPS
	JULY 1, 2003	RECEIPTS	DISBURSEMENTS	JUNE 30, 2004
AI Room - DC - Gallagher	\$41	\$300	\$277	\$64
AI Room - Elbing	385	405	410	380
EI Room - Bryant	65	52	111	6
EI Room - Central	76	0	0	76
EI Room - Central - Klinkoski	46	0	0	46
EI Room - OMS/Creech	395	0	0	395
Infant - Toddler	287	611	496	402
Pajot Classroom	428	1,497	1,442	483
Pajot Main	274	1,215	1,489	0
Pre-School/Dev. Center	1,592	434	322	1,704
Purcell	0	100	0	100
Shiawassee Development Center	238	51	108	181
SMI - Dev. Center	840	2,282	2,552	570
SXI - Dev. Center	530	135	296	369
TMI - Bryant/Wittenberg	180	273	316	137
TMI - CHS/Williams	182	873	725	330
TMI - CMS/Sinn	431	510	408	533
TMI - HS/Vassilakos	753	682	820	615
TMI - NR/Boilore	1,016	812	577	1,251
<u>TOTAL</u>	<u>\$7,759</u>	<u>\$10,232</u>	<u>\$10,349</u>	<u>\$7,642</u>

SHIAWASSEE REGIONAL EDUCATION SERVICE DISTRICT
SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS
AS OF JUNE 30, 2004

1998 DURANT RESOLUTION PACKAGE BONDS

DATE OF ISSUE - November 24, 1998

Original amount of issue - \$2,106,774

	PRINCIPAL REQUIREMENT	INTEREST RATE	INTEREST REQUIREMENT	TOTAL FISCAL YEAR REQUIREMENTS
<u>PAYMENT DATE - MAY 15TH</u>				
2005	\$0	4.761353%	\$0	\$0
2006	77,083	4.761353%	34,747	111,830
2007	80,734	4.761353%	31,077	111,811
2008	84,598	4.761353%	27,233	111,831
2009	88,627	4.761353%	23,205	111,832
2010	92,843	4.761353%	18,985	111,828
2011	384,875	4.761353%	142,852	527,727
2012	101,891	4.761353%	9,934	111,825
2013	106,741	4.761353%	5,082	111,823
<u>TOTAL</u>	<u>\$1,017,392</u>		<u>\$293,115</u>	<u>\$1,310,507</u>

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT

CORUNNA, MICHIGAN

FEDERAL AWARDS
SUPPLEMENTAL INFORMATION

FOR THE YEAR ENDED JUNE 30, 2004

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Lewis & Knopf, CPAs, P.C.

"Serving You with Trust and Integrity"

August 18, 2004

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Education of
Shiawassee Regional Educational Service District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Shiawassee Regional Educational Service District, as of and for the year ended June 30, 2004, which collectively comprise the Shiawassee Regional Educational Service District's basic financial statements and have issued our report thereon dated August 18, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Shiawassee Regional Educational Service District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of Shiawassee Regional Educational Service District, in a separate letter dated August 18, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Shiawassee Regional Educational Service District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of Shiawassee Regional Educational Service District, in a separate letter dated August 18, 2004.

This report is intended solely for the information and use of the audit committee, management, Board of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Lewis & Knopf PC
LEWIS & KNOFF, P.C.

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August 18, 2004

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

To the Board of Education of
Shiawassee Regional Educational Service District

Compliance

We have audited the compliance of Shiawassee Regional Educational Service District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. Shiawassee Regional Educational Service District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Shiawassee Regional Educational Service District's management. Our responsibility is to express an opinion on Shiawassee Regional Educational Service District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Shiawassee Regional Educational Service District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Shiawassee Regional Educational Service District's compliance with those requirements.

In our opinion, Shiawassee Regional Educational Service District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of Shiawassee Regional Educational Service District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Shiawassee Regional Educational Service District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.



Shiawassee Regional Educational Service District

Page 2

August 18, 2004

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level, the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, Board of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Lewis & Knopf PC
LEWIS & KNOFF, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

SHIAWASSEE REGIONAL EDUCATION SERVICE DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS- THROUGH PROJECT NUMBER	PROGRAM OR AWARD AMOUNT
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Passed Through Michigan Department of Education:			
Title I Grants to Local Educational Agencies:	84.010		
Title I Regular (03-04)		41700-0304	\$2,896
Special Education - Grants to States	84.027		
IDEA Flowthrough (03-04)		40450-0304	1,974,927
IDEA Flowthrough (02-03) Carryover		30450-0203C	149,964
IDEA Flowthrough (02-03)		30450-0203	1,645,424
State Initiated Competitive (03-04)		40480-EOSD	40,000
Capacity Building (03-04)		40490-CB	38,617
Capacity Building (02-03)		30490-CB	46,856
Transition Services (03-04)		40490-TS	70,000
Transition Services (02-03)		30490-TS	70,000
Total Special Education - Grants to States			<u>\$4,035,788</u>
Vocational Education - Basic Grants to States	84.048		
Vocational Education Data Collection (03-04)		43470-4017	285,963
Vocational Education Data Collection (02-03)		23470-7702	428,037
Total Vocational Education - Basic Grants to States			<u>\$714,000</u>
Special Education - Preschool Grants	84.173		
Preschool Incentive (03-04)		40460-0304	0
Preschool Incentive (02-03)		30460-0203	119,557
Total Special Education - Preschool Grants			<u>\$119,557</u>
Special Education - Grants for Infants & Families with Disabilities	84.181		
Formula Grant (03-04)		41340-190	137,434
Formula Grant (03-04)		31340-190C	62,321
Formula Grant (02-03)		31340-190	64,881
Total Special Education - Grants for Infants & Families with Disabilities			<u>\$264,636</u>
William F. Goodling Even Start Family Literacy			
Even Start (03-04)		40390-B04116CES	225,000
Even Start (02-03)	84.213	30390-A0308IES	117,395
Total William F. Goodling Even Start Family Literacy			<u>\$342,395</u>
Innovative Education Program Strategies	84.298		
Title V (03-04)		40250-0304	809
Improving Teacher Quality	84.367		
Title IIA (03-04)			991
Total Passed through Michigan Department of Education			<u>\$5,481,072</u>

ACCRUED (DEFERRED) REVENUE JULY 1, 2003	PRIOR YEAR EXPENDITURES	CURRENT YEAR EXPENDITURES	ADJUSTMENTS PRIOR YEARS	CURRENT YEAR CASH/ PAYMENTS IN KIND RECEIVED	ACCRUED (DEFERRED) REVENUE JUNE 30, 2004
\$0	\$0	\$0	\$0	\$0	\$0
0	0	1,974,927	0	1,625,383	349,544
0	0	149,964	0	89,210	60,754
121,204	1,645,424	0	0	121,204	0
0	0	40,000	0	40,000	0
0	0	38,617	0	38,617	0
3,557	46,856	0	0	3,557	0
		70,000	0	35,012	34,988
4,582	70,000	0	0	4,582	0
<u>\$129,343</u>	<u>\$1,762,280</u>	<u>\$2,273,508</u>	<u>\$0</u>	<u>\$1,957,565</u>	<u>\$445,286</u>
0	0	236,769	0	108,752	128,017
8,107	322,255	105,782	0	113,889	0
<u>\$8,107</u>	<u>\$322,255</u>	<u>\$342,551</u>	<u>\$0</u>	<u>\$222,641</u>	<u>\$128,017</u>
0	0	34,726	0	6,183	28,543
6,183	119,557	84,067	0	90,250	0
<u>\$6,183</u>	<u>\$119,557</u>	<u>\$118,793</u>	<u>\$0</u>	<u>\$96,433</u>	<u>\$28,543</u>
0	0	77,477	0	124,890	(47,413)
0	0	62,321	0	0	62,321
0	95,450	0	(30,569)	28,318	(58,887)
<u>\$0</u>	<u>\$95,450</u>	<u>\$139,798</u>	<u>(\$30,569)</u>	<u>\$153,208</u>	<u>(\$43,979)</u>
0	0	224,999	1	188,377	36,623
11,057	106,343	11,052	0	22,109	0
<u>\$11,057</u>	<u>\$106,343</u>	<u>\$236,051</u>	<u>\$1</u>	<u>\$210,486</u>	<u>\$36,623</u>
0	0	809	0	0	809
0	0	991	0	0	991
<u>\$154,690</u>	<u>\$2,405,885</u>	<u>\$3,112,501</u>	<u>(\$30,568)</u>	<u>\$2,640,333</u>	<u>\$596,290</u>

SHIAWASSEE REGIONAL EDUCATION SERVICE DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS- THROUGH PROJECT NUMBER	PROGRAM OR AWARD AMOUNT
<u>U.S. DEPARTMENT OF EDUCATION</u> (Continued)			
Passed through Genesee Intermediate School District			
Special Education - Grants to States	84.027		
Special Ed Technology Materials & Training (03-04)		40480-TMT	\$3,239
Vocational Education - Basic Grants to States	84.048		
Secondary Regional Education (03-04)		43520-401215	153,379
Secondary Regional Education (02-03)		33520-9215	162,656
Total Vocational Education - Basic Grants to States			<u>\$316,035</u>
Career Technical Education	84.243		
Tech Prep Education (03-04)		43540-041415	28,930
Tech Prep Education (02-03)		33540-2715	42,525
Total Career Technical Education			<u>\$71,455</u>
Total Passed through Genesee Intermediate School District			<u>\$390,729</u>
Passed Through Marquette-Alger RESA			
State Improvement (03-04)	84.323A	30620-3001	<u>3,200</u>
<u>TOTAL U.S. DEPARTMENT OF EDUCATION</u>			<u>\$5,875,001</u>
<u>U.S. EMPLOYMENT & TRAINING ADMINISTRATION</u>			
Passed through Career Alliance, Inc.			
Workforce Investment Act Title I (Summer) (03-04)	17.250	028-K-03	153,365
Workforce Investment Act Title I (Summer) (02-03)		028-K-02	163,875
Workforce Investment Act Title I (Year-Round) (03-04)		028-K-03	197,135
Workforce Investment Act Title I (Year-Round) (02-03)		028-K-02	142,375
			<u>\$656,750</u>
<u>TOTAL U.S. EMPLOYMENT & TRAINING ADMINISTRATION</u>			
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
Passed Through Michigan Department of Community Health	93.778		
School Based Services - Transportation		N/A	<u>43,097</u>
<u>TOTAL</u>			<u><u>\$6,574,848</u></u>

ACCRUED (DEFERRED) REVENUE JULY 1, 2003	PRIOR YEAR EXPENDITURES	CURRENT YEAR EXPENDITURES	ADJUSTMENTS PRIOR YEARS	CURRENT YEAR CASH/ PAYMENTS IN KIND RECEIVED	ACCRUED (DEFERRED) REVENUE JUNE 30, 2004
\$0	\$0	\$3,239	\$0	\$3,239	\$0
0	0	153,379	0	153,379	0
162,656	162,656	0	0	162,656	0
\$162,656	\$162,656	\$153,379	\$0	\$316,035	\$0
0	0	28,930	0	28,930	0
42,525	42,525	0	0	42,525	0
\$42,525	\$42,525	\$28,930	\$0	\$71,455	\$0
\$205,181	\$205,181	\$185,548	\$0	\$390,729	\$0
0	0	3,200	0	3,200	0
\$359,871	\$2,611,066	\$3,301,249	(\$30,568)	\$3,034,262	\$596,290
0	0	153,364	0	153,364	0
48,584	163,875	0	0	7,342	41,242
0	0	187,992	0	143,644	44,348
17,743	140,375	0	0	17,743	0
\$66,327	\$304,250	\$341,356	\$0	\$322,093	\$85,590
0	0	43,097	0	43,097	0
\$426,198	\$2,915,316	\$3,685,702	(\$30,568)	\$3,399,452	\$681,880

SHIAWASSEE REGIONAL EDUCATION SERVICE DISTRICT
NOTES/RECONCILIATION TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004

<u>FEDERAL REVENUE RECOGNIZED FOR SCHEDULE OF</u> <u>EXPENDITURES OF FEDERAL AWARDS</u>	\$3,685,702
<u>Less: Adjustment</u>	<u>(30,568)</u>
<u>TOTAL</u>	<u>\$3,655,134</u>

<u>FEDERAL REVENUE RECOGNIZED PER THE GENERAL</u> <u>PURPOSE FINANCIAL STATEMENTS</u>	
General Fund	\$868,016
Special Education Fund	<u>2,787,118</u>
<u>TOTAL</u>	<u>\$3,655,134</u>

- 1) The Schedule of Expenditures of Federal Awards had been prepared under the modified accrual basis of accounting.
- 2) Management has utilized the Grants Section Auditors Report (Form R7120) in preparing the Schedule of Expenditures of Federal Awards. All differences between the Schedule of Expenditures of Federal Awards and the Form R7120 have been reconciled in the attached reconciliation on page 7 of this report.
- 3) An adjustment was made to the Formula Grant 02-03 (CFDA 84.181) of \$30,569 due to the State of Michigan reallocating grant awards between years.

SHIAWASSEE REGIONAL EDUCATION SERVICE DISTRICT
RECONCILIATION OF FORM R 7120 " GRANT SECTION AUDITOR'S REPORT"
TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004

Current Payments Per the Grant Section Auditor's Report (Form R 7120)		\$2,640,333
<u>Add:</u> Grants Passed through Genesee Intermediate School District		
Special Education - Grants to States (CFDA 84.027)	\$3,239	
Vocational Education - Grants to States (CFDA 84.048)	316,035	
Career Technical Education (CFDA 84.243)	<u>71,455</u>	
Total Grants Passed through Genesee Intermediate School District		390,729
 Passed Through Marquette-Alger RESA		
State Improvement (CFDA 84.323A)		3,200
 Passed through Workforce Development Board & Michigan Works		
Workforce Investment Act (CFDA 17.250)		322,093
 Passed Through the Michigan Department of Community Health		
Medicaid - Transportation (CFDA 93.778)		<u>43,097</u>
 <u>TOTAL CURRENT YEAR RECEIPTS PER SCHEDULE OF EXPENDITURES</u> <u>OF FEDERAL AWARDS</u>		<u><u>\$3,399,452</u></u>

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued:

Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Noncompliance material to financial statements noted?

☐ Yes ☒ No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ☐ Yes ☒ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Type of auditor’s report issued on compliance for major programs:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?

☐ Yes ☒ No

Identification of major programs:

CFDA Number(s)
84.027/84.173

Name of Federal Program or Cluster
Special Education Cluster

Dollar threshold use to distinguish between type A and type B programs:

\$ 300,000.00

Qualified as low-risk auditee?

☐ Yes ☒ No

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

There were no prior year findings.



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August 18, 2004

To the Board of Education of
Shiawassee Regional Educational Service District

In planning and performing our audit of the financial statements of Shiawassee Regional Educational Service District for the year ended June 30, 2004 we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the Shiawassee Regional Educational Service District's ability to record, process, summarize and report financial data consistent with the assertions of management in the general purpose financial statements.

The following items that are an immaterial internal control or administrative consideration came to our attention.

CURRENT YEAR FINDINGS

1. Budgets and Budgetary Accounting

P.A. 621 of 1978, Section 18 (1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. During the year ended June 30, 2004, Shiawassee Regional Educational Service District incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated.

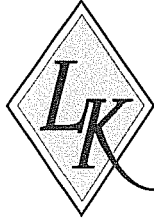
2. Time Certifications

The cost principles of OMB Circular A-87 require, "Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee".

The District should develop a standard time certification form and have the appropriate employee or other supervisory employee complete the certifications every six months.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, none of the reportable conditions described above is believed to be a material weakness.



Shiawassee Regional Educational Service District

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August 18, 2004

This report is intended for the information of Shiawassee Regional Educational Service District' Board of Education and management and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

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